



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
WARREN COUNTY SHERIFF**

**Calendar Year 1998**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
[WWW.STATE.KY.US/AGENCIES/APA](http://WWW.STATE.KY.US/AGENCIES/APA)**

**144 CAPITOL ANNEX  
FRANKFORT, KY 40601  
TELE. (502) 564-5841  
FAX (502) 564-2912**



## CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT .....	1
STATEMENT OF RECEIPTS AND DISBURSEMENTS.....	3
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES OF THE SHERIFF'S OPERATING FUND AND COUNTY FUND WITH THE STATE TREASURER .....	4
NOTES TO THE FINANCIAL STATEMENTS .....	6
COMMENT AND RECOMMENDATION .....	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	15
APPENDIX A – LETTER FROM BANK REGARDING LACK OF PLEDGES OF SECURITIES	





Edward B. Hatchett, Jr.  
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Sarah Jane Schaaf, Secretary, Revenue Cabinet  
Honorable Michael Buchanon, County Judge/Executive  
Honorable Jerry Gaines, Warren County Sheriff  
Members of the Warren County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts and disbursements of the Sheriff of Warren County, Kentucky, and the statement of receipts, disbursements, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 1998. These financial statements are the responsibility of the Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff is required to prepare the financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the receipts and disbursements of the Sheriff and the receipts, disbursements, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 1998, in conformity with the basis of accounting described above.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Sarah Jane Schaaf, Secretary, Revenue Cabinet  
Honorable Michael Buchanon, County Judge/Executive  
Honorable Jerry Gaines, Warren County Sheriff  
Members of the Warren County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance:

- The Sheriff Should Have Required Depository Institutions To Pledge Additional Securities Of \$380,518 As Collateral To Protect Deposits

In accordance with Government Auditing Standards, we have also issued a report dated June 16, 1999, on our consideration of the Sheriff's compliance with laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
June 16, 1999

WARREN COUNTY  
JERRY GAINES, SHERIFF  
STATEMENT OF RECEIPTS AND DISBURSEMENTS

Calendar Year 1998

Receipts

Kentucky Law Enforcement Foundation Program	\$	49,255
State Fees for Services		232,692
Circuit Court Clerk		70,564
Fiscal Court		1,389,701
County Clerk		9,139
Commission on Taxes		665,115

Fees Collected for Services:

Auto Inspections	\$	59,215
Serving Papers		95,241
Concealed Deadly Weapon License Fees		16,785
		171,241

Other Receipts:

Transporting Mental Patients	\$	15,411
Transporting Juveniles		1,616
Payroll Reimbursements		60,785
Reimbursements		626
Interest Earned - Fee Account		491
Interest Earned - Tax Account		14,324
Sheriff's Fees - Taxes		5,276
Miscellaneous		4,559
		103,088

Gross Receipts	\$	2,690,795
----------------	----	-----------

Disbursements

Payments to State:

Concealed Deadly Weapon License Fees	\$	11,245
--------------------------------------	----	--------

Other Disbursements:

Postage	\$	784
Jury Meals		216
Transporting Prisoners		26,774
Reimbursement		1,389
Refunds		861
		30,024

Total Disbursements		41,269
---------------------	--	--------

Net Receipts	\$	2,649,526
--------------	----	-----------

Payments to State Treasurer:

75% Operating Fund	\$	2,385,532
25% County Fund		263,994
		2,649,526

Balance Due at Completion of Audit	\$	0
------------------------------------	----	---

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY  
JERRY GAINES, SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES OF THE  
SHERIFF'S OPERATING FUND AND COUNTY FUND WITH THE STATE TREASURER

Calendar Year 1998

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 1998	\$ (622,025)	\$	\$ (622,025)
<u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	2,385,532		2,385,532
Fees Paid to State - County Funds (25%)		263,994	263,994
Total Funds Available	\$ 1,763,507	\$ 263,994	\$ 2,027,501
<u>Disbursements</u>			
Warren County Government	\$	\$ 263,994	\$ 263,994
Personnel Services-			
Officials Statutory Maximum	48,726		48,726
Deputies Salaries	965,169		965,169
Part-Time Deputies	11,684		11,684
Overtime	78,928		78,928
Employee Benefits-			
Social Security	80,517		80,517
Retirement	85,595		85,595
Health Insurance	82,388		82,388
Contracted Services-			
Advertising	8,522		8,522
Vehicle Maintenance and Repairs	71,573		71,573
Computer Maintenance Support	7,884		7,884
Computer Software Upgrade	62,822		62,822
Supplies and Materials-			
Office Materials and Supplies	28,235		28,235
Uniforms	28,009		28,009
Gasoline	49,246		49,246
Other Charges-			
Convention, Travel, and Training	9,313		9,313
Subscription Renewals and Fees	835		835
Phone	48,663		48,663
Postage	14,523		14,523
Unemployment Insurance	2,886		2,886
Law Enforcement Insurance	2,350		2,350
Bond	2,259		2,259
Other Charges- (Continued)			
Radio Maintenance and Repairs	5,407		5,407
Reimbursements	6,922		6,922
Miscellaneous	177		177



## WARREN COUNTY

JERRY GAINES, SHERIFF

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES OF THE  
SHERIFF'S OPERATING FUND AND COUNTY FUND WITH THE STATE TREASURER

Calendar Year 1998

(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Disbursements (Continued)</u>			
Capital Outlay-			
Law Enforcement Equipment	\$ 37,073	\$	\$ 37,073
Vehicles	19,676		19,676
Debt Service:			
Lease	4,125		4,125
Total Disbursements	<u>\$ 1,763,507</u>	<u>\$ 263,994</u>	<u>\$ 2,027,501</u>
Fund Balance - December 31, 1998	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY  
JERRY GAINES, SHERIFF  
NOTES TO THE FINANCIAL STATEMENTS

December 31, 1998

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and periodically paid to the county government. These funds are closed at the end of each term by paying the balances to the respective county government.

B. Basis of Accounting

The financial statements have been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The Attorney General issued a letter which stated that some receipts of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are receipted in the 75 percent fund.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

WARREN COUNTY  
 JERRY GAINES, SHERIFF  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 1998  
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 31, 1998, the uncollateralized amount on deposit was \$380,518. The pledged securities and FDIC insurance did not equal or exceed the amount on deposit. The bank provided a letter to the Sheriff apologizing that a bank error occurred. (See Appendix A for full text of the letter)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end.

	<u>Bank Balance</u>
Uncollateralized and Uninsured	<u>\$ 380,518</u>

Note 4. Reimbursed Expenditures

WARREN COUNTY  
 JERRY GAINES, SHERIFF  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 1998  
 (Continued)

The amount deposited to the Sheriff's expense fund (75%) with the State Treasurer included reimbursed expenses. The reimbursed expenses include payments from the state and payments from the county as well as refunds. The following \$1,502,599 were reimbursed expenses, which were 100% credited to the expense fund (75%):

Grant Reimbursements	\$ 55,070
Kentucky Law Enforcement	
Foundation Protection Fund	48,859
Payroll Reimbursements	4,807
Fiscal Court Assistance	1,389,701
Refunds	1,662
Imprest Cash	<u>2,500</u>
	<u>\$1,502,599</u>

Note 5. Lease

The office of the Sheriff is committed to a lease agreement with Gary Force Toyota/Mazda for a 1997 Toyota Four Runner. The agreement requires a monthly payment of \$375 for 24 months to be completed on February 19, 1999. The total balance of the agreement is \$750 as of December 31, 1998.

COMMENT AND RECOMMENDATION



WARREN COUNTY  
JERRY GAINES, SHERIFF  
COMMENT AND RECOMMENDATION

Calendar Year 1998

The Sheriff Should Have Required Depository Institutions To Pledge Additional Securities Of \$380,518 As Collateral To Protect Deposits

---

The Sheriff's deposits were not adequately secured by \$380,518 as of December 31, 1998. Under provisions of KRS 66.480(1)(d) and KRS 41.240(4), banks are required to provide pledges of securities as collateral for interest-bearing and noninterest-bearing deposits if either exceeds the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation. We recommend that the Sheriff require depository institutions to pledge sufficient securities as collateral to protect deposits at all times. The bank provided a letter to the Sheriff apologizing that a bank error occurred. (See Appendix A for full text of letter)

*Management's Response:*

*"Our office is now receiving a monthly print-out for our pledges and if our office does not receive this monthly print-out then we will know to call immediately to find out why."*

PRIOR YEAR FINDINGS

The Sheriff had the following two noncompliances reported in the prior audit:

- The Sheriff Should Have Required Depository Institutions To Pledge Additional Securities Of \$140,301 As Collateral And Entered Into A Written Agreement To Protect Deposits
- Sheriff Should Earn Interest on Fee Account Deposits

The Sheriff's bank accounts are interest bearing and due to a bank error, pledges were not sufficient in the current year. The Sheriff entered into a written agreement with the depository institution to protect deposits.

THIS PAGE LEFT BLANK INTENTIONALLY



REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Honorable Michael Buchanon, County Judge/Executive  
Honorable Jerry Gaines, Warren County Sheriff  
Members of the Warren County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the Warren County Sheriff as of December 31, 1998, and have issued our report thereon dated June 16, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Warren County Sheriff's financial statements as of December 31, 1998, are free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Warren County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Michael Buchanon, County Judge/Executive  
Honorable Jerry Gaines, Warren County Sheriff  
Members of the Warren County Fiscal Court  
Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
June 16, 1999

LETTER FROM BANK REGARDING  
LACK OF PLEDGES OF SECURITIES



**RECEIVED**

**National City.**

APR 15 1999

**WARREN CO. SHERIFF**

April 13, 1999

Carol Hurd  
Warren Co. Sheriff Department  
P. O. Box 807  
Bowling Green, KY 42101

To Whom It May Concern:

In November of 1998, Carol Hurd, contacted National City to have the Warren County Sheriff Dept. account #03010317, a public funds account, to be transferred to an interest bearing account with our bank.

The account was transferred to an interest bearing account; however, during the process an incorrect account code was established causing the account to not have securities pledged. Carol contacted National City in December when she failed to receive the monthly activity report on her account listing pledges. National City made contact with Funds Management in December and was informed it would be taken care of immediately. Carol called again in February of 1999, when she still had not received the activity listing pledges. Once again an attempt was made to correct the error, for the account had been without pledged securities from November of 1998 until February of 1999. National City resolved this issue in March of 1999, and it has been confirmed with Carol that an activity statement was received for March.

I apologize greatly that this bank error has occurred and would like to state that it is not normal practice for National City to make such errors. If there are any questions or concerns regarding this incident, please feel free to contact me at (502) 745-9354.

Sincerely,

*Crystal Wolfe*

Crystal Wolfe  
Retail Administration  
Bowling Green, KY